

Section 1.501(c)(6) of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

In Revenue Ruling 68-182, published in Internal Revenue Cumulative Bulletin 1968-1, page 263, the I.R.S. refused to follow a U.S. Court of Appeals decision that an organization whose members are engaged in the bottling and sale of a single franchised soft-drink product, whose purposes and activities were directed to the more efficient production and sale of that product, qualified for exemption under Section 501(c)(6) of the Code. It is the position of the Service that organizations promoting a single brand or product within a line of business do not qualify under Section 501(c)(6).

This position has been upheld by the Supreme Court in *National Muffler Dealers Association V. U.S.* 440 US. 472 (1979).

Revenue Ruling 74-147, Cumulative Bulletin 1974-1, page 136, describes an organization formed to stimulate the development of, with free interchange of information pertaining to, systems and programming of electronic data processing equipment. Its membership is made up of representatives of diversified businesses who own, rent, or lease one or more digital computers, produced by various manufacturers, without regard to identity of the manufacturer of any such computer. The organization holds semi-annual conferences at which operational and technical problems relating to computer use are discussed. Non-members are invited to attend the conferences at which operational and technical problems relating to computer use are discussed. Non-members are invited to attend the conferences and are encouraged to join as members. Income is from conference registration fees. Expenditures are made for meeting expenses and miscellaneous administrative costs. It was determined that the organization qualified for exemption under Section 501(c)(6).

Revenue Ruling 74-116, C.B. 1974-1, page 127, has to do with a membership organization devoted to developing and exchanging research data among users of a specific type of computer. The organization also serves as liaison between users and the manufacturer of the computer. The organization conducts meetings and seminars at which operational and technical problems relating

to the use of this computer are discussed. Representatives of the manufacturer are invited to attend those functions and answer questions concerning the computer's operation. The organization publishes reports of its meetings and seminars for distribution to members. Membership is limited to organizations that own, rent, or use this specific computer. Income is from membership dues and seminar fees. Expenditures are made primarily for instructional materials, publishing and other operational expenses. The subject organization had requested exempt status under Section 501(c)(3) of the Code. It was determined that the organization was not exempt because it was serving the private interests of its members.

Revenue Ruling 69-106, C.B. 1969-1, page 153 discusses an organization formed and operated by a group of manufacturers to carry on research and development in projects of common interest to their industry. A committee of the membership agrees on what projects will be undertaken. The results of the research are made available only to members. Although membership in the organization is open to all businesses in the industry on an equal basis, not all the businesses in the industry are members. In order to be exempt under Section 501(c)(6), a research organization must make the results of its research available to all the members of an industry. This organization did not qualify for exemption since it distributes the results of its research only to its members and therefore, its activities are not aimed at the improvement of business conditions for the entire industry.

The information you have submitted indicates that your organization is very similar to the organization described in Revenue Ruling 74-116 above. Although your organization has applied under Section 501(c)(6) rather than 501(c)(3), the rationale of that ruling is applicable under Section 501(c)(6) also.

Your organization does not possess the characteristics of the organization described in Revenue Ruling 74-147. Your membership is composed solely of users of [REDACTED] products and no one who is not authorized by this company to use its software products may be a member.

As discussed in Revenue Ruling 69-106, you do not make your information generally available to anyone in your line of business who is not a member. This reasoning is not invalidated simply because you do not conduct research as the organization in

[REDACTED]

the Ruling did. Your primary activity of conducting seminars for [REDACTED]'s product users is not directed to the improvement of business conditions for the entire industry.

Finally, as noted in Revenue Ruling 68-182, you are promoting the use of a single brand or product, those products of [REDACTED], and not an entire line of business as required by the Regulations and Court decision cited.

Therefore, we have concluded that you do not qualify for tax exempt status as an organization described in Section 501(c)(6) of the Code. Based on the information submitted, exempt status will not be recognized under any related paragraph of Section 501(c) of the Code.

You are required to file Federal income tax returns on Form 990. File the return for the year ended April 30, 1982 with your District Director within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office or, if you request, at any mutually convenient District office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]
District Director

Enclosure: Publication 892

cc: [REDACTED]